

2003 Apportionment and Allocation of Income**R**

Attach this schedule to your California tax return.

For calendar year 2003 or fiscal year beginning month _____ day _____ year 2003, and ending month _____ day _____ year 20 _____	
Corporation name _____	California corporation number _____
Address _____	PMB no. _____
City _____	State (country) _____ ZIP Code _____

Water's-Edge Filers Only: If controlled foreign corporations (CFCs) are included in the combined report, attach form FTB 2416, Retained Earnings of Controlled Foreign Corporations.

Be sure to complete Side 1 and all applicable schedules. See General Information for Schedule R.

<p>1 a Net income (loss) after state adjustments from Form 100 or Form 100W, Side 1, line 18; Form 100S, Side 1, line 15; Form 100X, line 4. Form 565 and Form 568 filers: Include the total of line 1 through line 7 from Schedule K (565 or 568) less the total of line 8 through line 12 from Schedule K (565 or 568) ●</p> <p>b Water's-edge foreign investment interest offset from form FTB 2424, line 17 ●</p> <p>c Total. Combine line 1a and line 1b ●</p> <p>Nonbusiness Income (Loss) from all sources. See General Information A for definitions and examples.</p> <p>2 Dividends included on line 1a and not deducted on Form 100W, Side 1, line 11a; or Form 100S, Side 1, line 10 ●</p> <p>3 Interest. Attach schedule ●</p> <p>4 Net income (loss) from the rental of property from Schedule R-3, line 3, column (c) ●</p> <p>5 Royalties. Attach schedule ●</p> <p>6 Gain (loss) from the sale of assets from Schedule R-4, line 2, column (e) ●</p> <p>7 Gain (loss) from sale of a nonbusiness interest in a partnership or LLC. Attach schedule ●</p> <p>8 Miscellaneous nonbusiness income (loss). Attach schedule ●</p> <p>9 Total nonbusiness income (loss). Combine line 2 through line 8 ○ ●</p> <p>Business Income (Loss) before apportionment (subject to a separate apportionment formula)</p> <p>10 Nonunitary partnership or LLC business income (loss) ●</p> <p>11 Income (loss) from a separate trade or business. Attach supplemental Schedule R ●</p> <p>12 Income (loss) deferred from prior years, see instructions ●</p> <p>13 Capital gain (loss) netting subject to separate apportionment. See General Information M ●</p> <p>14 Total separately apportionable business income (loss). Combine line 10 through line 13 ●</p> <p>15 Total business income (loss) subject to apportionment for this trade or business, subtract the sum of line 9 and line 14 from line 1c ●</p> <p>16 Interest offset from Schedule R-5, line 7 or line 16 (California domiciliaries only) ●</p> <p>17 Business income (loss) for this trade or business subject to apportionment. Combine line 15 and line 16 ○ ●</p> <p>18 a Apportionment percentage from Schedule R-1, line 5 ○</p> <p>b Business income (loss) apportioned to California. Multiply line 17 by line 18a ○ ●</p> <p>Nonbusiness Income (Loss) Allocable to California. If no income (loss) is allocable to California, do not complete line 19 through line 26, enter -0- on line 27 and go to Side 2, line 28.</p> <p>19 Dividends and interest income (if taxpayer's commercial domicile is in California):</p> <p style="padding-left: 20px;">a Dividends included in line 2 above ●</p> <p style="padding-left: 20px;">b Interest included in line 3 above ●</p> <p>20 Net income (loss) from the rental of property within California from Schedule R-3, line 3, column (b) ●</p> <p>21 Royalties. Attach schedule ●</p> <p>22 Gain (loss) from the sale of assets within California from Schedule R-4, line 2, total of column (b) and column (d). Combined reporting groups, see General Information M ●</p> <p>23 Gain (loss) from sale of a nonbusiness interest in a partnership or LLC. Attach schedule ●</p> <p>24 Miscellaneous nonbusiness income (loss). Attach schedule ●</p> <p>25 Total nonbusiness income (loss) allocable to California. Combine line 19a through line 24 ○ ●</p> <p>26 Interest offset from line 16 allocated to income included on line 19a and line 19b (California domiciliary only). See General Information J ●</p> <p>27 Net nonbusiness income (loss) allocable to California. Subtract line 26 from line 25 ●</p>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr><td style="width:10%;">1a</td><td style="width:10%;"></td><td style="width:10%;"></td></tr> <tr><td>1b</td><td></td><td></td></tr> <tr><td>1c</td><td></td><td></td></tr> <tr><td colspan="3" style="background-color: #cccccc; height: 100px;"></td></tr> <tr><td>9</td><td></td><td></td></tr> <tr><td colspan="3" style="background-color: #cccccc; height: 100px;"></td></tr> <tr><td>14</td><td></td><td></td></tr> <tr><td>15</td><td></td><td></td></tr> <tr><td>16</td><td></td><td></td></tr> <tr><td>17</td><td></td><td></td></tr> <tr><td>18a</td><td></td><td style="text-align: right;">%</td></tr> <tr><td>18b</td><td></td><td></td></tr> <tr><td colspan="3" style="background-color: #cccccc; height: 100px;"></td></tr> <tr><td>19a</td><td></td><td></td></tr> <tr><td>19b</td><td></td><td></td></tr> <tr><td>20</td><td></td><td></td></tr> <tr><td>21</td><td></td><td></td></tr> <tr><td>22</td><td></td><td></td></tr> <tr><td>23</td><td></td><td></td></tr> <tr><td>24</td><td></td><td></td></tr> <tr><td>25</td><td></td><td></td></tr> <tr><td>26</td><td></td><td></td></tr> <tr><td>27</td><td></td><td></td></tr> </table>	1a			1b			1c						9						14			15			16			17			18a		%	18b						19a			19b			20			21			22			23			24			25			26			27		
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California business income (loss) subject to a separate apportionment formula.

28 California business income (loss) from a nonunitary partnership or LLC	●	28			
29 California income (loss) from a separate trade or business. Attach supplemental schedule R.	●	29			
30 California income (loss) deferred from prior years, see instructions	●	30			
31 Total business income (loss) separately apportioned to California. Combine line 28 through line 30	●	31			
Net income (loss) for California purpose					
32 Post-apportioned and allocated amounts from capital gain (loss) netting (combined reporting groups). See General Information M	●	32			
33 Net income (loss) for California purposes before contributions adjustment. Combine line 18b, 27, 31 and 32	●	33			
34 Contributions adjustment from Schedule R-6, line 15	●	34			
35 Net income (loss) for California purposes. Combine line 33 and line 34. Enter here and on Form 100 or Form 100W, Side 1, line 19 or Form 100S, Side 1, line 16	●	35			

Schedule R-1 Apportionment Formula

The following information must be submitted by all corporations engaged in a trade or business activity conducted within and outside California, regardless of the apportionment method used.

	(a) Total within and outside California	(b) Total within California	(c) Percent within California (b) ÷ (a)
1 Property: Use the average yearly value of owned real and tangible personal property used in the business at original cost. See General Information E. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment (including delivery equipment)			
Furniture and fixtures			
Land			
Other tangible assets. Attach schedule			
Rented property used in the business. See General Information E ..			
Total property	●	●	● %
2 Payroll: Use employee wages, salaries, commissions, and other compensation related to business income. See General Information F.			
Total payroll	●	●	● %
3 Sales: Use gross receipts, less returns, and allowances			
a Sales delivered or shipped to California purchasers. See General Information G.			
(i) Shipped from outside California			
(ii) Shipped from within California			
b Sales shipped from California to:			
(i) The United States Government			
(ii) Purchasers in a state where the taxpayer is not taxable. See General Information G			
c Other gross receipts (rents, royalties, interest, etc.)			
Total sales	●	●	● %
Divide Sales column (b) by Sales column (a) and multiply by 2 (except for qualified business activities). See General Information G			● %
4 Total percent. Add the percentages in column (c). See General Information H			
5 Apportionment percentage. Divide line 4 by 4 (qualified business activities divide by 3, see General Information G) and enter here and on Schedule R, Side 1, line 18a. See General Information H			● %

Schedule R-2 Sales and General Questionnaire. Attach additional sheets if necessary.

- 1 Describe briefly the nature and location(s) of your California business activities: _____
- 2 State the exact title and principal business activity of all joint ventures, partnerships, or LLCs in which the corporation has an interest: _____
- 3 Does the California sales figure on Schedule R-1 (or a comparable schedule in a combined report) include all sales shipped from California where the purchaser is the U.S. Government? ☐ Yes ☐ No If no, explain. _____
- 4 Does the California sales figure on Schedule R-1 (or a comparable schedule in a combined report) include all sales shipped from California to states in which the taxpayer is not subject to tax? See General Information G. ☐ Yes ☐ No If no, explain. _____
- 5 Are the nonbusiness items reported on Schedule R, Side 1, line 2 through line 8, and the apportionment factor items reported on Schedule R-1 treated consistently on all state tax returns filed by the taxpayer? ☐ Yes ☐ No If no, explain. _____
- 6 Has this corporation or any member of its combined unitary group changed the way income is apportioned or allocated to California from prior year tax returns? See General Information I. ☐ Yes ☐ No If yes, explain. _____
- 7 Does the California sales figure on Schedule R-1 (or comparable schedule in a combined report) include all sales shipped to California destinations? ☐ Yes ☐ No
If no, indicate the name of the selling member and the nature of the sales activity believed to be immune. _____
- 8 Does the California sales figure on Schedule R-1 (or comparable schedule in a combined report) include all sales delivered to customers outside California which have an ultimate destination in California? ☐ Yes ☐ No If no, explain. _____

Schedule R-3 Net Income (Loss) From the Rental of Nonbusiness Property

	(a) Total outside California	(b) Total within California	(c) Total outside and within California (a) + (b)
1 Income from rents			
2 Rental deductions			
3 Net income (loss) from rents. Subtract line 2 from line 1. Enter here and enter column (c) on Side 1, line 4; enter column (b) on Side 1, line 20 ...			

Schedule R-4 Gain (Loss) From the Sale of Nonbusiness Assets

California sales of nonbusiness assets include transactions involving: (1) real property located in California; (2) tangible personal property, if it had a situs in California at the time of sale, or if the corporation is commercially domiciled in California and not taxable in the state where the property had a situs at the time of sale; and (3) intangible personal property if the corporation's commercial domicile is in California or the income is otherwise allocable to California.

1 Description of property sold	Real estate and other tangible assets		Intangible assets		Total
	(a) Gain (loss) from outside California	(b) Gain (loss) from within California	(c) Gain (loss) from outside California	(d) Gain (loss) from within California	(e) Gain (loss) (a)+(b)+(c)+(d)
2 Total gain (loss)					

Enter total gain (loss) line 2, column (e) on Side 1, line 6 and enter total of line 2, column (b) and (d) on Side 1, line 22

Schedule R-5 Computation of Interest Offset. Complete only if there are entries on line 2 and/or line 3 of Schedule R and if Schedule R-1 is required. See General Information J. **(California domiciliary only)**

1	Total interest expense deducted	1		
2	Water's-edge foreign investment interest offset from Side 1, line 1b	2		
3	Balance. Subtract line 2 from line 1	3		
4	Total interest income (Form 100 or Form 100W, Side 1, line 4 and Schedule F, line 5a and line 5b; or Form 100S, Side 1, line 3 and interest income included on Schedule F, line 5 and Schedule K, line 4a)	4		
5	Nonbusiness interest income from Side 1, line 3	5		
6	Business interest income. Subtract line 5 from line 4	6		
7	Excess interest expense over business interest income. Subtract line 6 from line 3. If line 6 exceeds line 3, enter -0- here and on Side 1, line 16, and do not complete the rest of this schedule	7		
8	Total dividend income	8		
9	Deducted dividends from Form 100, Side 1, line 10; Form 100W, Side 1, lines 10 and 11a; or Form 100S, Side 1, lines 9 and 10	9		
10	Net dividend income. Subtract line 9 from line 8	10		
11	Business dividend income	11		
12	Deducted dividends from Form 100, Side 1, line 10; Form 100W, Side 1, line 10 and line 11a; or Form 100S, Side 1, line 9 and line 10, attributable to business dividend income	12		
13	Net business dividend income. Subtract line 12 from line 11	13		
14	Net nonbusiness dividend income. Subtract line 13 from line 10	14		
15	Total nonbusiness interest and dividend income. Add line 5 and line 14	15		
16	Enter the lesser of line 7 or line 15. Enter here and on Side 1, line 16	16		

If interest and/or dividend income is reported on Side 1, line 19a or line 19b, enter the allocable portion of Schedule R-5, line 16 on Side 1, line 26.
See General Information J. If no interest or dividend income is reported on Side 1, line 19a or line 19b, do not deduct any interest expense on Side 1, line 26.

Schedule R-6 Contributions Adjustment. See General Information N.

1	Total contributions paid (current year and carryover amount)	1	
2	Net income after state adjustments from Side 1, line 1c	2	
3	Portion of dividends deductible under R&TC Section 24411 from Side 1 of the Form 100W, line 11a; or Form 100S, line 10, and other adjustments. See General Information N	3	
4	Contributions deducted on Form 100, Form 100W, or Form 100S	4	
5	Total. Add line 2 through line 4	5	
6	Multiply line 5 by 10% (.10)	6	
7	Net income (loss) for state purposes before contributions adjustment from Side 2, line 33	7	
8	Business dividends deductible on line 3 multiplied by the average apportionment percentage from Schedule R-1, line 5	8	
9	Amount of line 3 attributable to nonbusiness dividends reported on Side 1, line 19a	9	
10	Contributions deducted (from line 4 above) multiplied by the average apportionment percentage from Schedule R-1, line 5	10	
11	Total. Add line 7 through line 10	11	
12	Multiply line 11 by 10% (.10)	12	
Contributions Adjustment			
13	Enter the amount shown on line 10	13	
14	Amount of contributions allowable:		
a	If line 1 equals or exceeds line 6, enter the lesser of line 1 or line 12	14a	
b	If line 1 is less than line 6, divide line 11 by line 5. Then multiply line 1 by the result and enter here	14b	
15	Contributions adjustment. Subtract line 14a or line 14b from line 13. Enter here and on Side 2, line 34. If the result is a negative amount, enter in brackets	15	

Schedule R-7 Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations

This election is an integral part of the return of all taxpayers participating in the election, and must be filed annually with Schedule R. Signing the return is an acknowledgement that the key corporation and its electing affiliates agree to comply with the following terms and conditions:

Each of the taxpayers listed in Schedule R-7, Part 1, hereby elect to file a single unitary taxpayers' group return. The unitary taxpayers' group return constitutes the return for each member of the electing group and satisfies the requirement of each electing member to file its own return.

Each corporation that elects to file a group return agrees to be bound by the terms and conditions specified in this schedule and instructions under General Information P, Group Return Election. The filing of its group return indicates acceptance of all terms and conditions. To be eligible, each corporation must: 1) be a taxpayer required to file a return in California, 2) be a member of a single unitary group for its entire taxable year, 3) have the same taxable year as the key corporation or have a taxable year that is wholly included within the taxable year of the key corporation, and 4) have the same statutory filing date as the key corporation for the taxable year.

The key corporation must file the unitary taxpayers' group return. With the initial return and thereafter, any payment of taxes for the income year shall be made using the key corporation's California corporate number as designated below. The key corporation must be taxable in California and, where applicable, be the parent corporation. If the parent corporation is not a California taxpayer, the key corporation should be the taxpayer with the largest property factor numerator in California. For the election to be valid, the key corporation's powers, rights, and privileges must not be suspended or forfeited. The key corporation agrees to act as surety and agent for each member of the group. In addition, all electing members agree that subsequent adjustments to the liability of the members of the group may be assessed, billed, or paid to the key corporation on behalf of its members, either in the name of the key corporation or the name of the members. Adjustments to the liability of the members of the group will ordinarily be reflected in a single notice. However, supplemental schedules reflecting the adjusted liability of each member will be provided upon request.

A California waiver of a statute of limitations (SOL) by the key corporation will waive the SOL for all electing member corporations. If the key corporation does not fulfill its obligation to pay tax or act on behalf of its members, each member may be independently assessed or billed for its own tax liability. If that becomes necessary, each member will generally be credited with taxes previously paid in accordance with the member's self-assessed tax liability (see Legal Ruling 95-2). It is the responsibility of the members of the group to assure that amounts paid by one member on behalf of another are properly accounted for between the members. For electing members subject to the franchise tax, the liability for each electing corporation cannot be less than the minimum tax. See General Information P.

The election is binding on all members for all matters for the taxable year of the election. If some or all of the corporations included in the election to file a unitary taxpayers' group return are later determined not to be members of the unitary group of the key corporation, the key corporation and electing members agree that any subsequent adjustment for any and all members included in the original group return may still be assessed, billed, or paid by the key corporation.

The election remains in effect for the payment of estimated tax and tax paid with an extension of time to file for the following year by the key corporation on behalf of the group, unless notice of termination of the election is provided to the Franchise Tax Board on or before the time of payment.

Part 1

List of Taxpayers Making Election to File a Single Unitary Taxpayers' Group Tax Return. Attach additional sheets if necessary.

Electing taxpayer corporation (Enter as much of the true legal name as possible. Use abbreviations only if the abbreviation is part of the legal name.)	California corporation number	Federal employer identification number (FEIN)	Total self-assessed tax
(Key corporation)			
	●		●
	●		●
	●		●
	●		●
	●		●
	●		●
	●		●
	●		●
	●		●
	●		●
Total			

Part 2

List each affiliated corporation not listed in Part 1. A corporation is an affiliated corporation for this purpose if it is a member of the same commonly controlled group (see FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, for more information). All affiliated corporations should be listed whether or not they are California taxpayers or are unitary with the key corporation. Include the California corporation number for each taxpayer. If the California corporation number is not available, then include the federal employer identification number.

List of Affiliates Not Included in Part 1. Attach additional sheets if necessary.

Affiliate corporation's name	California corporation number (if applicable) or FEIN	Is this corporation unitary with the electing group?		Does this corporation file a California tax return on a different fiscal year than the electing group?		Was this corporation acquired or disposed of during the year?		
		Yes	No	Yes	No	Acq.	Dis.	Date
	●	●		●		●		●
	●	●		●		●		●
	●	●		●		●		●
	●	●		●		●		●
	●	●		●		●		●
	●	●		●		●		●

Instructions for Schedule R

Apportionment and Allocation of Income

References in these instructions are to the California Revenue and Taxation Code (R&TC).

What's New

Forms, Schedules, and instructions impacted by the court decision in *Farmer Bros. Co. v. Franchise Tax Board* (2003) have been revised to disallow any deduction taken based on Section 24402. In *Farmer Bros. Co. v. Franchise Tax Board* (2003) 108 Cal App 4th, 134 Cal Rptr. 2nd 390, the California Court of Appeal found that the R&TC Section 24402 deductible dividend provision discriminated against interstate commerce in violation of the Commerce Clause of the United States Constitution. R&TC Section 24402 provided for a deduction to the extent that the dividend payer was taxable in California. A statute that is held to be unconstitutional is invalid and unenforceable. Therefore, the deduction is not available.

Forms, Schedules, and instructions impacted by the court decision in *Ceridian v. Franchise Tax Board* (2000) have been revised to disallow any deduction taken based on Section 24410. In *Ceridian v. Franchise Tax Board* (2000) 85 Cal App 4th 875, the Court of Appeal has determined that Section 24410, which provides a limited deduction for dividends received from an insurance company, is unconstitutional. As such, the statute is invalid and unenforceable. Therefore, the deduction is not available.

General Information

This schedule is used by all taxpayers who are required to apportion business income. Special instructions apply to individuals and partnerships. See General Information B, Individuals, and General Information C, Partnerships and Limited Liability Companies.

Unless stated otherwise, the term "corporation" as used in these instructions and forms includes "banks."

For purposes of these instructions, the term "partnership" includes limited liability companies (LLCs) that are classified as partnerships for tax purposes and the term "partners" includes members of LLCs.

Private Mailbox (PMB) Number

If the corporation leases a PMB from a private business rather than a PO box from the United States Postal Service, include the box number in the field labeled "PMB no." in the address area.

A Apportionment and Allocation

APPORTIONING TRADE OR BUSINESS

A distinct trade or business whose business income is required to be apportioned under R&TC Sections 25101 and 25120 and limited, if applicable, by a water's-edge election under R&TC Section 25110. Apportionment of personal income tax business income is defined in Cal. Code Regs., tit. 18 section 17951-4.

APPORTIONMENT – Generally refers to the division of business income among states by the use of an apportionment formula.

ALLOCATION – Generally refers to the assignment of nonbusiness income to a particular state.

When a corporation's income is from sources both within and outside California, the portion of the corporation's total net income that has its source in California is determined using R&TC Sections 25120 through 25141 and the applicable regulations, which generally conform to the Uniform Division of Income for Tax Purposes Act. The first step is to determine which portion of the corporation's net income is "business income" and which portion is "nonbusiness income."

Nonbusiness income is allocated to specific states as provided in R&TC Sections 25123 through 25127 and the applicable regulations. Business income is apportioned to the states in which the business is conducted, based on the property, payroll, and sales apportionment factors set forth in R&TC Sections 25128 through 25141 and the

applicable regulations. The sum (or net) of the business income apportioned to California, income from a trade or business conducted totally in California, plus the nonbusiness income items directly allocated to California, is the corporation's California source net income.

BUSINESS INCOME – Is defined by Cal. Code Regs., tit. 18 section 25120(a) as income arising from transactions and activities in the regular course of the corporation's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the corporation's regular trade or business operations. Accordingly, the critical element in determining whether income is "business income" or "nonbusiness income" is the identification of the transactions and activities that are the elements of a particular trade or business. In general, all transactions and activities of the corporation that are dependent on or contribute to the operations of the corporation's economic enterprise as a whole give rise to business income.

The California Supreme Court held that the definition of business income contains both a transactional test and a functional test and includes income from the sale of business asset or right, even if in extraordinary event (*Hoechst Celanese Corp. v. Franchise Tax Board*, (2001) 25 Cal. 4th 508).

Example 1 – Corporation Y owns 30% of Corporation X. Corporation Y makes substantial purchases from Corporation X for use in its unitary business operations and, except for the ownership percentage, would be considered unitary with Corporation X's business operations. A dividend from Corporation X paid to Corporation Y is business income.

Example 2 – Corporation A operates a multistate chain of men's clothing stores. Corporation A purchases a five-story office building primarily for use in connection with its principal business. It uses the street floor as one of its retail stores and the second and third floors for its general corporate headquarters. It leases the remaining two floors to others. The rental of the two floors is incidental to the operation of Corporation A's business. The rental income is business income.

Example 3 – Corporation B is engaged in the multistate business of manufacturing and selling industrial chemicals. In connection with that business, Corporation B obtained patents on some of its products. Corporation B licensed the production of the chemicals in foreign countries. In return, Corporation B receives royalties. The royalties received by Corporation B are business income.

Example 4 – In conducting its multistate manufacturing business, Corporation C systematically sells and replaces automobiles, machines, and other equipment used in the business. The gains or losses resulting from those sales constitute business income.

Example 5 – Corporation D is engaged in a multistate manufacturing and selling business. Corporation D usually has working capital that it regularly invests in interest bearing securities. The interest income is business income.

NONBUSINESS INCOME – Means all income other than business income.

In accordance with R&TC Sections 25120 through 25141 inclusive, the income of the corporation is business income unless clearly classifiable as nonbusiness income. Nonbusiness income must be computed net of related expenses.

Example 6 – Corporation E operates a multistate chain of men's clothing stores. Corporation E invests in a 20-story office building and uses the street floor as one of its retail stores and the second floor for its general corporate headquarters. The remaining 18 floors are leased to

others. The rental of the 18 floors is not incidental to, but rather is separate from, the operation of the trade or business of Corporation E. The net rental income is nonbusiness income of the clothing store business.

Example 7 – Corporation F operates a multistate chain of grocery stores. An office building that had been used as the corporate headquarters did not provide adequate space. A new and larger building, located elsewhere, was acquired for use as the new headquarters. The old building was rented to an investment company under a five-year lease. Upon expiration of the lease, the building was sold at a gain (loss). The gain (loss) on the sale is nonbusiness income and the rental income received during the lease period is nonbusiness income.

Note: Special rules apply to gain or loss from the sale by a corporation of a nonbusiness partnership interest:

- If 50% or less of the value of the partnership's assets at the time of sale consist of intangibles, divide the original cost of tangible property in California owned by the partnership at the time of the sale by the original cost of all tangible personal property owned by the partnership at the time of the sale. Multiply this ratio by the gain or loss to find the California amount; or
- If more than 50% of the value of the partnership's assets at the time of sale consist of intangibles, multiply the gain or loss by the sales factor of the partnership for its first full taxable period immediately preceding the taxable period during which the partnership interest was sold to find the California amount.

B Individuals

Nonresidents and resident individuals eligible for the other state tax credit who have income or loss from a trade or business activity conducted within and outside California must apportion their income in accordance with the provisions of R&TC Sections 25120 through 25141 (see Cal. Code of Regs., tit. 18 section 17951-4). Items of income or loss that would be treated as nonbusiness income under those sections if earned by a corporation should be sourced using the normal sourcing rules that apply to individuals under R&TC Sections 17951 through 17955, and reported on the appropriate line of Schedule CA (540) or Schedule CA (540NR). Individuals complete only Schedule R-1, R-2, and lines 17, 18a, and 18b on Schedule R. Enter on line 17 the total income from the trade or business after any adjustment for federal and state differences, see Schedule CA (540). Nonresidents or part-year residents enter the amount from line 18b on Schedule CA (540NR), line 17, column E. In completing these schedules, the term "corporation" should be read as "apportioning business activity."

C Partnerships and Limited Liability Companies

Partnerships and LLCs that are classified as partnerships for tax purposes, with income or loss from a trade or business conducted within and outside California, must apportion business income in accordance with the provisions of R&TC Sections 25120 through 25141 (see Cal. Code Regs., tit. 18 section 17951-4).

If a trade or business conducted by a partner or member is **unitary** with the trade or business of the partnership or LLC, the partner's or member's distributable share of business income of the partnership is generally treated as business income of the partner. The partner or member must add its share of the partnership's or LLC's property, payroll, and sales within and outside California to its own property, payroll, and sales within and outside California in order to apportion the combined income. This will be reflected on the partner's or member's own tax return. This rule does not apply to certain taxpayers described by

Section 17951-4(d)(4) and (5) subject to the personal income tax law. For further information, see Cal. Code Regs., tit. 18 section 17951-4(d)(4 and 5), and section 25137-1.

If the trade or business conducted by a partner or member is **not unitary** with the trade or business of the partnership or LLC, the partnership or LLC apportions its business income separately, using Schedules R, R-1, R-2, R-3, and R-4 only. In completing these schedules replace the term "corporation" with "partnership" or "LLC."

Note: For purposes of Schedule R-4, partnerships or LLCs should not allocate nonbusiness income from intangibles. The following special rules apply to such income.

Partnership or LLC items of nonbusiness income or loss are considered to be earned by the partner or member. If the partner is a corporation, that income is allocated according to the rules under R&TC Sections 25123 through 25127. Corporations should include such nonbusiness income (loss) on the appropriate line of lines 2-8, and, if applicable, lines 19-24. For individuals, such income is allocated under the rules applicable to individuals as if earned directly. The rules for determining business or nonbusiness classification are the same as those used for corporations, under Cal. Code. Regs., tit. 18 section 25120(c).

For more information, see the instructions for Schedule K-1 (565) and Schedule K-1 (568) inside the Form 565 and Form 568 Booklets.

D Water's-Edge Filers

Corporations filing on a water's-edge basis that own controlled foreign corporations must complete form FTB 2416, Retained Earnings of Controlled Foreign Corporations, and attach it to Form 100W, California Corporation Franchise or Income Tax Return — Water's-Edge Filers, or Form 100S, California S Corporation Franchise or Income Tax Return.

Water's-edge filers who are subject to the foreign investment interest offset must complete form FTB 2424, Water's-Edge Foreign Investment Interest Offset, and attach it to Form 100W or Form 100S. The foreign investment interest offset requires the application of interest expense to offset the foreign dividend deduction. In general, the calculation requires the identification of interest incurred for purposes of foreign investment using the ratio of unassigned foreign assets over unassigned total assets.

For more information regarding water's-edge reporting, get Form 100W, Water's-Edge Booklet, and FTB Notice 93-7.

E Property Factor

The property factor is a fraction. The numerator is the value of real and tangible personal property owned or rented and used in California during the taxable year to produce business income. The denominator is the value of **all** the corporation's real and tangible personal property owned or rented and used during the taxable year to produce business income. Property owned by the corporation that is in transit between states is considered to be located at its destination.

Property is included in the factor if it is actually used or is available for use or capable of being used during the taxable year. It remains in the property factor until its permanent withdrawal is established by an identifiable event such as its sale or conversion to the production of nonbusiness income. Property used in the production of nonbusiness income is excluded from the factor.

Property owned by the corporation is valued at its original cost averaged over the taxable year. In general, "original cost" is the basis of the property for federal income tax purposes (prior to any federal adjustments) at the time of acquisition by the corporation and adjusted by

subsequent capital additions or improvements, special deductions, and partial disposition because of sale, exchange, abandonment, etc. Depreciation does not reduce original cost.

As a general rule, the average value of property owned by the corporation is computed by averaging the values at the beginning and ending of the taxable year. The Franchise Tax Board (FTB) may require or allow monthly averaging if this method is required to properly reflect the average value of property for the taxable year.

Rented property is valued at eight times the net annual rental rate. The net annual rental rate for any item of rented property is the total annual rents paid for the property, less the aggregate annual subrental rates paid by subtenants if the subrents constitute nonbusiness income. Subrents are not deducted when the subrents constitute business income.

F Payroll Factor

The payroll factor is a fraction. The numerator is the compensation paid in California during the taxable year to produce business income. The denominator is the total compensation paid during the taxable year to produce business income. Compensation connected with the production of nonbusiness income is excluded from the payroll factor.

The total amount "paid" to employees is determined on the basis of the corporation's accounting method. Under the accrual method, all compensation properly accrued is deemed to have been paid.

Regardless of the corporation's method of accounting, at the election of the corporation, compensation paid to employees may be included in the payroll factor by use of the cash method if the corporation is required to report the compensation under that method for unemployment compensation purposes.

The term "compensation" means wages, salaries, commissions, and any other form of remuneration paid to employees for personal services. Payments made to an independent contractor, or any other person not properly classifiable as an employee, are excluded.

Compensation is paid in California if any one of the following tests, applied sequentially, is met:

1. The employee's service is performed entirely within California;
2. The employee's service is performed both within and outside of California, but the service performed outside of California is incidental to the employee's service within California ("incidental" service means any service that is temporary or transitory in nature, or that is rendered in connection with an isolated transaction);
3. If the employee's service is performed both within and outside of California, the employee's compensation will be attributed to California if:
 - The employee's base of operations is in California; or
 - There is no base of operations in any state in which some part of the service is performed, but the place from which the service is directed or controlled is in California; or
 - The base of operations, or the place from which services are directed or controlled is not in any state that some part of the service is performed, but the employee's residence is in California.

"Base of operations" is the place of a permanent nature from which the employee starts work and returns in order to receive instructions or communications from customers or other persons, to replenish stock or other materials, to repair equipment, or to perform any other functions necessary to the exercise of the trade or profession at some other point or points.

Individuals and partners engaged in the practice of a profession may be subject to special rules for determining the payroll factor. Sole proprietors and partners engaged in the practice of law, accounting, medicine, engineering, or any other profession involving

personal services where capital is not a material income producing factor should refer to Cal. Code Regs., tit. 18 section 17951-4(g)-(i) for information regarding computation of the payroll factor.

G Sales Factor

For taxable years beginning on or after January 1, 1993, the sales factor is double weighted for most corporations. However, corporations that derive more than 50% of their gross business receipts from conducting a "qualified business activity" should use a single-weighted sales factor to apportion all of their business income.

Gross business receipts means all gross business receipts after eliminating any gross business receipts from intercompany transactions between members of a combined group required to be included in a combined report under R&TC Section 25101 or, if applicable, limited by Section 25110.

The following activities are "qualified business activities" for purposes of this exception:

- Extractive or agricultural business activities are qualified business activities for all taxable years beginning on or after January 1, 1993. Extractive business activities are activities relating to the production, refining, or processing of oil, natural gas, or mineral ore. Agricultural business activities means activities relating to any stock, dairy, poultry, fruit, furbearing animal, truck farm, plantation, ranch, nursery, or range. Other activities may qualify. See R&TC Section 25128(d)(2) and Cal. Code Regs., tit. 18 sections 25128, 25128-1, and 25128-2.
- Savings and loan activities are qualified business activities for taxable years beginning on or after January 1, 1994. A savings and loan activity means any activity performed by savings and loan associations or savings banks which have been chartered by federal or state law.
- Banking or financial business activities are qualified business activities for taxable years beginning on or after January 1, 1996. A banking or financial business activity means activities attributable to dealings in money or moneyed capital in substantial competition with the business of national banks.

Unitary corporations, partnerships, and LLCs must apply the 50% test to the business receipts of the entire group. If the entire group satisfies one of the exceptions, all members of the group must use a single weighted sales factor. If not, all members of the group must use a double weighted sales factor.

The sales factor is a fraction. The numerator is the gross receipts derived during the taxable year from transactions and activities attributable to California in the regular course of the corporation's trade or business. The denominator is the total gross receipts derived during the taxable year from transactions and activities everywhere in the regular course of the corporation's trade or business.

Gross receipts means gross sales less returns and allowances and includes all interest income, service charges, carrying charges, or time-price differential charges incidental to these gross receipts. If federal and state excise taxes (including sales taxes) are passed on to the buyer or included in the selling price of the product, they must be included in gross receipts. This applies regardless of where the accounting records are maintained or the location of the contract or other evidence of indebtedness.

The following are rules for determining "sales" in various situations:

1. In the case of a corporation engaged in manufacturing and selling goods or products, "sales" includes all gross receipts from the sales of such goods or products held for sale to customers in the ordinary course of its trade or business. Goods or products also include other property of a kind that would properly be included in the inventory if on hand at the close of the taxable year.

2. In the case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, "sales" includes the entire reimbursed cost, plus the fee.
3. In the case of a corporation engaged in providing services, such as the performance of equipment service contracts or research and development contracts, "sales" includes the gross receipts from the performance of such services, including fees, commissions, and similar items.
4. In the case of a corporation engaged in renting real or tangible property, "sales" includes the gross receipts from the rental, lease, or licensing the use of the property.
5. In the case of a corporation engaged in the sale, assignment, or licensing of intangible personal property such as patents and copyrights, "sales" includes the gross receipts therefrom.
6. In the case of a corporation that derives receipts from the sale of equipment used in its business, these receipts constitute "sales." For example, a truck express company owns a fleet of trucks and sells its trucks under a regular replacement program. The gross receipts from the sales of the trucks are included in the sales factor.

Gross receipts from sales of tangible personal property with a destination in California (except sales to the U. S. government) are attributable to California if the property is delivered or shipped to a purchaser within California regardless of the freight on board point or other conditions of sale. For taxable years beginning on or after April 22, 1999, California destination sales attributable to a member of a combined reporting group which is itself not taxable in California are not assigned to California. See Cal. Code Regs., tit. 18 section 25106.5(c)(7)(B).

Gross receipts from sales of tangible personal property (except sales to the U. S. Government) which is shipped from an office, store, warehouse, factory, or other place of storage within California are assigned to California unless the seller is taxable in the state of destination, even if another member of the seller's combined reporting group is taxable in the destination state. See Cal. Code Regs., tit. 18 section 25106.5(c)(7)(B).

A corporation is taxable in the state of destination if it meets either one of the two following tests:

1. The corporation is subject to a net income tax, a franchise tax measured by net income, a franchise tax for the privilege of doing business, or a corporate stock tax because of its business activity in another state; or
2. Another state has jurisdiction to tax net income, regardless of whether or not that state imposes such a tax on the corporation.

The first test applies only if a corporation carries on business activities in another state. However, the corporation is not taxable in another state if the corporation:

- Files and pays tax voluntarily, when not required to do so by the laws of that state; or
- Pays a minimal fee for qualification, organization, or for the privilege of doing business in that state, but does not actually engage in business activities in that state; or
- Engages in some activity, not sufficient to be taxed, and the minimum franchise tax bears no relation to the corporation's activities in that state.

The second test applies if the corporation's business activities are sufficient to give the state jurisdiction to impose a net income tax under the Constitution and statutes of the United States. Jurisdiction to tax is not present if the state is prohibited from imposing the tax because of Public Law 86-272, 15 U.S.C. 381-385.

Note: Any transportation of goods by vehicle is a form of shipment, whether the vehicle is owned by the seller, the purchaser, or a common carrier. If a seller transfers possession of goods to a purchaser at the purchaser's

place of business in California, the sale is a California sale. However, if goods are transferred to the purchaser's employee or agent at some other location in California and the purchaser immediately transports the goods to another state, the sale is not a California sale. See Legal Ruling 95-3.

Gross receipts from sales of tangible personal property to the U. S. Government are attributable to California if the property is shipped from California even if the corporation is taxable in the state of destination. Only sales for which the U. S. Government makes direct payment to the seller according to the terms of a contract constitute sales to the U. S. Government. Thus, as a general rule, sales by a subcontractor to the prime contractor, the party to the contract with the U. S. Government, do not constitute sales to the U. S. Government.

Sales, other than sales of tangible personal property, are apportioned to California if:

1. The income-producing activity is performed wholly within California; or
2. A portion of the income-producing activity is performed outside of California but a greater portion of this activity is performed within California than in any other state, based on costs of performance.

"Income-producing activity" means the transactions and activity directly engaged in by the corporation in the regular course of its trade or business for the ultimate purpose of earning gains or profits. "Income-producing activity" applies to each separate item of income.

"Income-producing activity" does not include transactions and activities performed on behalf of a corporation, such as those conducted by an independent contractor.

"Costs of performance" means direct costs determined in a manner consistent with generally accepted accounting principles and in accordance with industry practices in the corporation's trade or business.

Special Rules. The following are special rules to determine if receipts from the income-producing activities are attributable to California:

1. Gross receipts from the rendering of personal services by employees or the use of tangible and intangible property by the corporation in performing a personal service are attributable to California to the extent that the personal services are performed within California.

However, when personal services are performed within and outside California, the gross receipts are attributable to California as shown below. If services are related to:

- Separate income producing activities – personal service gross receipts are measured by the ratio of time spent within California versus the time spent performing services everywhere; or
- A single item of income – all gross receipts if a greater portion of personal services are performed within California based on costs of performance.

Time spent in performing personal services includes the amount of time expended in the performance of a contract or other obligation that gives rise to the gross receipts.

Personal service not directly connected with the performance of the contract or other obligation (for example, time expended in negotiating the contract) is excluded from the computations.

2. Gross receipts from the sale, rental, leasing, licensing, or other use of real property are attributable to California if the real property is located within California.
3. Gross receipts from the rental, leasing, licensing, or other use of tangible personal property are attributable to California if the property is located within California.

If tangible personal property is located within and outside of California during the rental, lease, or licensing period, gross receipts attributable to

California are measured by the ratio which the time the property was physically present or was used within California bears to the total time or use of the property during the period.

There are instances where a corporation will exclude gross receipts from the sales factor in order for the apportionment formula to work fairly. See Cal. Code Regs., tit. 18 section 25137 for more information.

H Computation of Apportionment Percentage

When computing the average apportionment percentage for Schedule R-1, line 5, divide the total percent on line 4 by the number of factors that have amounts in column (a). For most corporations, the denominator is four (property, payroll, and twice the sales factor). For agricultural, extractive, savings and loans, and banking and financial business activities, the denominator is three (property, payroll, and sales). Those factors with zero balances in the totals of both column (a) and column (b) will not be included in the fraction. For example, if the corporation has no payroll then the average apportionment percentage would be computed by entering 1/3 of line 4 instead of the standard 1/4.

I Consistency in Reporting

Corporations that changed the way the following items were treated in prior year tax returns, must disclose the nature and extent of these changes on Schedule R-2, line 6. Disclose any changes to:

- Classification of income as business or nonbusiness income;
- Valuation of property or inclusion of property in the property factor;
- Determination of the amount of compensation paid that is used in the payroll factor; or
- Inclusion of gross receipts in the sales factor.

Disclose only inconsistencies in the valuation or assignment of items in the three factors that materially affect the apportionment percentage. On Schedule R-2, line 5, explain (with references to the laws or regulations of the other state) any inconsistencies in the determination of nonbusiness income and in the factors due to a difference in state laws or regulations. Show the amount of inconsistency on a state-by-state basis.

When a corporation sells tangible personal property that is shipped from California and assigned to a state in which the corporation does not file a tax return or report, the corporation must identify the state to which the property is shipped, report the total amount of sales assigned to that state, and furnish the facts that the corporation relied on in establishing jurisdiction to tax by that state.

J Computation of Interest Offset

The U. S. Supreme Court held California's interest offset provision (R&TC Section 24344(b)) to be unconstitutional in circumstances in which nonbusiness dividends or interest which are allocated outside of California exist within a unitary group (*Hunt-Wesson v. FTB* (2000) 120 S.Ct. 1022). As provided in FTB Notice 2000-9, the statute continues to apply, for all corporations, to interest expense assigned to business interest income.

For taxable years beginning on or after February 22, 2000, that portion of the interest offset that assigns interest expense to nonbusiness interest and dividend income shall apply only to interest expense assignable to nonbusiness interest and dividend income allocated to California.

If no dividend or interest income is classified as nonbusiness income on Schedule R, line 2 and line 3, it is not necessary to complete Schedule R-5. Intercompany interest paid from one member of a combined reporting group to another is not included in the interest offset computation.

In any case in which the tax of a corporation is or has been determined in a combined report with another corporation, all dividends paid by one to another of such corporations are, to the extent dividends are paid out of the earnings and profits of the unitary business, eliminated from the income of the recipient and are not taken into account for interest offset purposes.

If a California domiciliary's income is subject to apportionment by formula, the corporation's interest expense deduction is limited to interest income subject to apportionment plus the amount, if any, that the balance of interest expense exceeds nonbusiness interest and nonbusiness dividend income of the California domiciliary.

Interest expense not deductible under the preceding paragraph is directly offset against nonbusiness interest and nonbusiness dividend income.

Use Schedule R-5 to make the interest expense computation. Enter on Schedule R, line 16 and line 26, the amount of interest offset from Schedule R-5, line 7 or line 16.

If supplemental Schedule Rs are required, the interest offset shall not be applied on more than one Schedule R.

K Income (Loss) from a Separate Trade or Business

If a corporation conducts two or more nonunitary businesses, the business income from each trade or business must be separately apportioned, see Cal. Code Regs., tit. 18 section 25120(b). Enter the **total** separately apportionable business income (loss) on Schedule R, Side 1, line 11 and **California** separate business income (loss) apportionments on Schedule R, Side 2, line 29. Attach a supplemental Schedule R for each separate business.

L Business Income (Loss) deferred from Prior Years

This applies to certain installment sales (see Legal Ruling 431), and certain long-term contracts (see Cal. Code Regs., tit. 18 section 25137-2). Enter the **total** deferred income (loss) from prior years on Schedule R, Side 1, line 12 and **California** deferred income (loss) from prior years' apportionments on Schedule R, Side 2, line 30.

M Capital Loss Limitation

California conforms to the federal provisions for netting gains and losses from involuntary conversions, Section 1231 assets, and capital assets. If the netting process results in net capital losses, the losses are not deductible in the current year, but may be carried over to subsequent years.

For a combined reporting group only, the members' business gains and losses in each class (i.e., the classes are voluntary conversion, 1231 short-term capital, or long-term capital) are combined, and each taxpayer member determines its share of the business gain/loss items based on its apportionment percentage. Then, each taxpayer member applies the federal netting rules to its share of post-apportioned business gain/loss items and its California-source nonbusiness gain/loss items. Enter the total amount of the combined post-apportioned and allocated capital gain (loss) on Schedule R, line 32. If a net loss results for any taxpayer member, it may be carried forward for up to five years.

For more information regarding the application of the capital loss limitation in a combined report and the capital loss carryover, see Cal. Code Regs., tit. 18 section 25106.5-2 and Pub. 1061, Guidelines for Corporations Filing a Combined Report..

N Contributions Adjustment

There may be differences between the federal and California amount. In general under California law, corporations may deduct contributions only to the extent of the corporation's basis in the asset being contributed.

For taxable years beginning on or after January 1, 1996, the limit for the charitable contributions deduction increased to 10% of a corporation's California net income before deducting contributions, adjusted for the use of the apportionment formula and any nonbusiness income and losses. Contributions that exceed the 10% limit may be carried over for up to five taxable years for contributions made during taxable years beginning on or after January 1, 1996.

For purposes of the charitable contribution limitation, net income is to be computed without regard to deductions for items included in Art. 2, Ch. 7, of the Corporation Tax Law (other than organizational expenses). Such adjustments should be included on Schedule R-6, line 3. Refer to R&TC Section 24358.

Use Schedule R-6 to compute deductible contributions for state purposes. If the contributions deducted do not exceed the 10% limit, and if no nonbusiness income or loss is classified on Side 1, line 19 through line 24, it is not necessary to complete Schedule R-6.

O Combined Report

The unitary method of computing California income is required when two or more corporations are engaged in a unitary business, a portion of which is carried on in California. A tax return for each corporation subject to the Corporation Tax Law is required, unless Schedule R-7, Election to File a Unitary Taxpayers' Group Return and List of Affiliated Corporations, is filed with the FTB. For detailed information, get FTB Pub. 1061, Guidelines for Corporations Filing a Combined Report, and see Cal. Code Regs., tit. 18 section 25106.5.

P Group Return Election

As a convenience for taxpayers, a group of unitary corporate taxpayers may elect to file a single group return. The election applies **only** to those members of a unitary group which are taxpayers (i.e., are themselves subject to the California income or franchise tax). Do not complete the Schedule R-7 for unitary groups that have only one California taxpayer.

The designated "key" corporation makes the election on behalf of itself and the electing taxpayer members by completing Schedule R-7 and attaching the schedule to the return. Schedule R-7 is effective only for the taxable year with which it is filed. In order to make a valid election, the key corporation's powers, rights, and privileges must not be suspended or forfeited.

The parent corporation of a unitary group should only be designated as the key corporation if it is qualified or incorporated in California, or if it is doing business in California. Combined returns are often filed with a parent corporation that is neither qualified nor doing business in California designated as the key corporation. This can result in an erroneous assessment of minimum tax to the parent corporation.

By filing a group tax return and the completed Schedule R-7, each electing member indicates acceptance of all terms and conditions set forth in Schedule R-7. The group return satisfies the requirement of each electing taxpayer member to file its own tax return. Failure to complete all of the items requested in this election may result in incorrect processing of the tax return.

The tax liability of each taxpayer member of the unitary group is computed using the combined reporting rules provided in Cal. Code Regs., tit. 18 sections 25106.5 through 25106.5-10, and in instructions in FTB Pub. 1061. The tax liabilities of each of the electing taxpayer group members are then separately identified, aggregated, and reported on the group return.

Corporations That Cannot Elect to File a Group Return:

Because of statutory filing requirements, California taxpayers may not be included in a group return unless:

- 1) the taxpayer's taxable year is the same as or wholly within the key corporation's taxable year, and
- 2) the due date of the taxpayer's tax return for the taxable year is the same as the due date of the key corporation's tax return. In addition, corporations may not file a group return if more than one unitary business is being conducted by any one taxpayer. For example: if Division 1 of Corporation A is engaged in a unitary business with Corporation B and Division 2 of Corporation A is engaged in a separate unitary business with Corporation C (i.e., the business of A-B and A-C are not unitary with each other), a group return may not be filed by A, B, and C. Two separate combined report computations will be necessary to determine and apportion the income of each of the businesses A (Division 1)-B and A (Division 2)-C.

Tax Liability of Electing Members: Show the total tax liability for each electing corporation on Schedule R-7 in the "Total self-assessed tax" column.

The liability of each corporation included in the group return is the same as if each member of the group filed a separate return. Thus, it is necessary to determine each corporation's share of the combined report income apportioned to California using the method prescribed by Cal. Code Regs., tit. 18 section 25106.5. Each member then applies its own nonbusiness income or loss and its own net operating loss (if applicable) to that amount to arrive at the corporate taxpayer's net income (loss) for state purposes. In determining the member's tax liability, tax credits authorized by Chapter 3.5 of the Corporation Tax Law may be claimed only by the particular member that is eligible for the credit unless provided by statute to the contrary. Each member incorporated, qualified to do business, or doing business in California must pay at least the minimum franchise tax provided for in R&TC Sections 25135 and 23181. On a separate schedule, clearly show the computation of the tax liability for each member of the group. Get FTB Pub. 1061 for examples of the computational detail that should be provided.

Caution: Failure to indicate each member's correct self-assessed tax liability may result in incorrect processing if separate assessments or refunds are required. (See Legal Ruling 95-2.)

Payment of Tax: Any tax required to be paid with the group single return should normally be paid by the key corporation on behalf of its members, using the key corporation's California corporation number. In addition, if the group has made an election for the preceding taxable year, estimated taxes and payments with extension of time to file for the taxable year should be made by the key corporation on behalf of the members, using the key corporation's California corporation number.

Note: If the corporation must pay its tax liability using electronic funds transfer (EFT), all taxes must be remitted by EFT to avoid penalties. For information on who is required to make EFT payments, get FTB Pub. 3817, Electronic Funds Transfer Program Information Guide, or call the EFT Unit at (916) 845-4025.